

NATIONAL CREDIT UNION ADMINISTRATION

OFFICE OF INSPECTOR GENERAL

NCUA FINANCIAL STATEMENT AUDITS FOR

OPERATING FUND SHARE INSURANCE FUND CENTRAL LIQUIDITY FACILITY COMMUNITY DEV. REVOLVING FUND

For the year ended December 31, 1996

Audited Financial Statements	Audit Report Number
NCUA Operating Fund	97-02
National Credit Union Share Insurance Fund	97-03
Central Liquidity Facility	97-04
Community Development Revolving Loan Program	97-05

April 1, 1997

Frank Thomas
Inspector General

NATIONAL CREDIT UNION ADMINISTRATION

AUDIT OF THE 1996 FINANCIAL STATEMENTS

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EXECUTIVE SUMMARY

PURPOSE AND SCOPE

The NCUA Office of Inspector General contracted with the independent CPA firm of Deloitte & Touche to perform the financial statement audits of the NCUA Operating Fund, the National Credit Union Share Insurance Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Program, for the year ended December 31, 1996.

The purpose of the audits is to express an opinion on whether the financial statements are fairly presented. The independent firm also reviewed the internal control structure and evaluated compliance with laws and regulations, as part of their audit.

The Chief Financial Officers Act of 1990 (CFOs Act) requires that financial statement audits of certain funds be performed by Inspectors General. The Central Liquidity Facility meets the criteria of those funds that are to be audited under CFO guidelines.

The audit was performed in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller of the United States.

The NCUA Office of Inspector General reviewed the independent firm's workpapers, as part of its oversight function.

AUDIT RESULTS

The independent public accounting firm, Deloitte & Touche, expressed unqualified opinions, stating that the financial statements present fairly the financial position as of December 31, 1996 and the results of operations for the year then ended for the NCUA Operating Fund, the Share Insurance Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Program.

Although Deloitte & Touche does not express an overall opinion of the Funds' compliance with laws and regulations, their testing of compliance did not disclose any significant deviations.

Deloitte & Touche did not find any matters considered to be *material* weaknesses in their review of the Funds' internal control structures pertinent to financial reporting. However, during the performance of their audit, the firm did develop five observations related to the internal control structure and other accounting, administrative, and operating matters.

FINANCIAL STATEMENT CONTRACT

Deloitte & Touche and their subcontractors, Brown & Company contracted with the Inspector General in May 1996 to perform the financial statements audits mentioned above. The contract was for fiscal year 1996 and four option years. The Assistant Inspector General for Audit is to act as COTR for this contract.

OBSERVATIONS AND RECOMMENDATIONS

Information Security Strategy and Policy

The National Credit Union Administration has not formally defined an organizational risk statement or Information Security Strategy. Without a formal information security strategy and policy outlining administrative procedures, the NCUA runs the risk of not being able to effectively administer and monitor security. To date, there does not appear to be any outstanding issues associated with the current lack of formalization of an Information Security Strategy.

Recommendation 97-02-01:

NCUA should take steps to address organizational risk concerns by formalizing a comprehensive Information Security Strategy and Policy.

The Office of Technology and Information Systems agrees with the observation and plans to implement an Information Security Strategy and Policy.

Lack of Information Systems Development and Acquisition policies

The NCUA has not formally documented and communicated its developed Information Systems Strategy. Information Systems Development and Acquisition policies are not in place. A formal information systems strategy that addresses development and acquisition helps an organization ensure that scarce resources are used efficiently. Without adequate planning and structure around systems strategy and systems development, NCUA runs the costly risk of implementing information technology that is incomplete, incompatible, cost inefficient, or inappropriate given NCUA strategic objectives. This observation and recommendation has been made every year since 1993.

Recommendation 97-02-02:

NCUA should formally document and communicate its general Information Systems Strategy.

The Office of Technology and Information Systems agrees with the observation and plans to implement an Information Systems Strategy.

Statement of Cash Flows

The monthly financial statement reporting package currently prepared by the four Funds does not include a Statement of Cash Flows. The preparation and use of this statement would help assist management and other users with cash analysis. In addition, it would assist management with the year end preparation of the required Statement of Cash Flows.

Recommendation 97-02-03:

Management should consider preparing a Statement of Cash Flows on a monthly basis.

The Office of the Chief Financial Officer agrees with this observation and will consider preparing a monthly Statement of Cash Flows.

Home Purchase Program

NCUA has not developed a set of procedures for monitoring the fair market value of Home Purchase Program assets on an ongoing basis and maintaining a valuation allowance to reduce these assets to their estimated net realizable value. The Operating Fund historically incurs losses each year on the sale of these properties.

Recommendation 97-02-04:

Management should establish a valuation allowance to reduce Home Purchase Program asset to their estimated net realizable value in order to more fairly state the asset balance in the financial statement.

The Office of Administration agrees that losses occur each year for Home Purchase Program assets. However, most of the sales of these assets are consummated within a year's time. Additionally, the cost of obtaining fair market value information may not be worth the benefit, since the asset balance and related allowance are immaterial. However, the Office of Administration will consider alternative methods of determining fair market value for assets carried as of the end of the year.

The accounting software used by the Community Development Revolving Loan Program is not configured to produce loan principal and interest payments on a portfolio wide basis.

Recommendation 97-02-05:

Management should consider modifying the current monthly financial reporting package to include a report of scheduled loan portfolio principal and interest payments.

The Office of Community Development Credit Unions agreed with the observation and will consider modifying the current monthly financial reporting package.